

SUBMISSION TO THE CANADIAN RADIO-TELEVISION

AND

TELECOMMUNICATIONS COMMISSION

IN REPLY TO TELECOM PUBLIC NOTICE 1984-33

REGARDING INTEREXCHANGE COMPETITION AND RELATED ISSUES

BY THE GOVERNMENT OF SASKATCHEWAN

SEPTEMBER, 1984

Hon. J. Gary Lane
Minister of Justice

Minister Responsible for Communication

Introduction

The Government of Saskatchewan is pleased to offer its comments to these CRTC hearings on interexchange competition and related issues. An observation that will be made many times during these deliberations is that this is the most important telecommunications issue that this regulatory body has ever had to wrestle with. Regardless of the repetition of this statement it must be made often in order to impress upon this body the far-reaching impacts that its decision will have on telecommunications in Canada, and in particular upon the Province of Saskatchewan.

In making this submission, the Government of Saskatchewan does so with the clear understanding that this Commission does not have regulatory jurisdiction over telecommunications in our Province. However, we do recognize that the effects of decisions taken by this Commission on this issue could and will impact our Provincially-owned telephone company, and the people of Saskatchewan.

We urge you to carefully assess the significance of the policy you are about to formulate. Consider if such a policy is in the national interest, in the interest of the Provinces, of benefit to the average Canadian, or will this serve only a very select few. Should this commission decide to mimic events that have taken place to the south of us, and favor competition in long distance service it can only exacerbate regional disparities in Canada, by adding greatly to the telecommunications costs of customers not residing in the more populated areas.

While the Government of Saskatchewan recognizes the right of the CRTC to conduct hearings on this issue, we maintain that the far-reaching impacts of this are too important to be left to a single regulatory body. The impacts of this decision on all Canadians -- not just those in Bell and B.C. Tel territories -- are so horrendous that a decision on this matter should, we believe, be left in the hands of the elected representatives. The elected representatives -- at both the Federal and Provincial levels -- are ultimately accountable for their actions. They, through a consultative process, must arrive at a policy decision and pass this policy on to their respective regulatory bodies. One level of Government, and one regulatory body should not assume the responsibility for arriving at a unilateral decision on this matter.

Saskatchewan Situation

The provincially owned telephone company, SaskTel, provides Saskatchewan residents with virtually 100% universal access and with the second lowest subscriber rates in Canada. In providing this service, SaskTel has invested over \$1.1 billion in property, plant and equipment.

The crown corporation is a significant factor in the economy of Saskatchewan. It provides employment for 4,400 people in 65 communities throughout Saskatchewan. It has an annual payroll of \$140 million, and its annual capital requirements exceed \$110 million. Through the service it provides, and its economic contribution to the province, the continued health of SaskTel is very important to the future of our Province.

To fully understand the problems that were faced in providing universal telephone service in Saskatchewan, it is important to understand how the geography of our province caused unique problems for the telephone company.

The Province covers a total area of 651,900 square kilometers. Distributed over this area are 1 million people who reside on 67,320 farms and in 859 communities. The following provides a breakdown of community size.

<u>Percentage of Communities</u>	<u>A Population Less Than</u>
48%	100 Persons
57	150 "
82	500 "
91	1000 "
97	3000 "

Approximately 33% of the provincial population resides in one of the two largest cities, Regina and Saskatoon, while the remaining 67% of the population resides in one of the many smaller communities or farms.

To provide the level of telephone service that is available to Saskatchewan residents, the telephone company made the \$1.1 billion investment described earlier. This service level is consistent with the crown corporation's mission statement which in part is:

"...provide and price service so as to encourage as many Saskatchewan residents as possible to subscribe to our basic telecommunications service."

The essence of these policies is to provide the maximum number of people with telephone service, both long distance and local exchange service. The rationale is that the larger the number of subscribers being served, the greater the value of the service to all users. A related goal, is to provide a high level of service to all residents of Saskatchewan. This goal is difficult to achieve in a period of rapid technological change, especially in a province such as ours with numerous small remote communities.

The Provincial Government also is committed to maintain the general availability of high quality, basic telecommunications service throughout the whole of the province at a price that is universally affordable.

The provincial commitment to the provisioning of this service is, in fact, also consistent with that of the other telephone companies who have combined their facilities to form a national telecommunications service through Telecom Canada. Their stated goal is:

"To make basic service (long distance service) universally available at reasonable rates."

This goal, despite wide variations in the cost of providing this service throughout Canada, has been achieved. In achieving this goal, the telephone companies have also been able to provide low-cost local service to subscribers. It is this service that is in jeopardy if competition is allowed to become established in the telecommunications sector.

SaskTel has responded, as have other telephone companies, to the social and economic needs of the province by providing unique services to satisfy these needs. In SaskTel's case, the corporation undertook to provide reliable telecommunications service to more than 25,000 northern residents who are spread over an area that covers approximately 50% of the Province's total area. Similarly, services have been provided to farms and small rural communities throughout the southern half of the province. The corporation has also undertaken to install a 3,400 km fibre optic network that is capable of carrying voice messages, data communications and image transmissions. Similarly, coaxial cable systems have been installed in many communities, thereby enabling these residents to enjoy enhanced television services.

SaskTel has constantly re-invested its earnings into expanding and upgrading physical facilities so that Saskatchewan residents can enjoy top quality telecommunications services.

The availability of this high quality communications infrastructure benefits all telecommunications users, but especially businesses which, during the conduct of their day to day affairs, have access to virtually every resident in the Province.

Providing Telecommunications Services in Saskatchewan.

SaskTel relies on other services, mainly message toll to contribute to the provisioning of local telephone service. This is illustrated by the following which shows the expenses and revenues by lines of service for 1982:

	<u>NET</u> <u>REVENUE</u>	<u>TOTAL</u> <u>EXPENSE</u>
Local Service	\$ 52.3M	\$102.9M
Toll Service	179.4M	54.8M
Common	2.8M	79.4M

To provide basic exchange services, the Province is subdivided into exchange areas to reflect the community of interest of subscribers. There are 342 exchange areas, the third highest number of exchange areas in Canada, exceeded only by Ontario and Alberta. It should be noted that SaskTel ranks only fifth in the number of subscribers that are served. The lowest population distribution of any province in Canada, and the vast geographical area covered, has made provisioning of basic exchange service very costly.

A. Contribution of Long Distance Revenue to Basic Telephone Service

Despite cost disadvantages associated with provisioning of service to rural areas, SaskTel's local exchange rates are still among the lowest in Canada. The difference between the revenues and costs related to basic local telephone service must be made up by contributions from other sources, the largest of which comes from message toll service. In this respect, SaskTel heavily depends upon long distance revenues. In 1983, for example, SaskTel's toll revenue comprised 65.5% of its total operating revenues. With the exception of Alberta Government Telephones, the other telephone companies' toll revenues were less than 60% of their total operating revenues.

B. Population Distribution

The population distribution of Saskatchewan is such that 24% of the population lives in rural areas. In these areas, which are made up of hamlets and farm residences, the average farm size is larger than that in any other part of Canada and thus the average cost for SaskTel to serve these rural subscribers is high.

The following points illustrate Saskatchewan's rural population dispersion.

- 1) Farm residences represent 23% of the total telephone subscriber base, a significant percentage when compared to other provinces.
- 2) SaskTel has the second highest number of route-miles of microwave systems in Canada.
- 3) A rural improvement program undertaken to reduce multi-party line (MPL) load, has resulted in an average MPL load of 2.7 subscriber per line. The approximate cost for this service is \$1300 per subscriber.
- 4) There are 70,000 multi-party line subscribers.

These facts attest to the geographic dispersement of communities within Saskatchewan and thus result in a higher cost of providing basic telephone service and long distance access than is the case in other provinces.

C. Saskatchewan's Economic Base

Saskatchewan does not have a large industrial base from which any great amount of long distance revenues can be obtained. Approximately 62% of all long distance revenues are generated from the residential sector (a figure higher than the national average) and 38% from the business sector. For the business market, approximately 80% of toll revenues are generated by 20% of the businesses, indicating a high vulnerability to any competitive forces.

Agriculture, Saskatchewan's largest single industry, comprises the largest percentage of our gross domestic product. Reasonable telecommunications rates are essential to this industry. Any upward movement in telecommunications rates would be detrimental to the province's agribusiness especially in light of recent agriculture prices and escalating farm costs.

Saskatchewan has made significant achievements in providing basic telephone service in spite of low population density, vast geographic areas and economic constraints. The need for such ubiquitous basic service will only increase as our society becomes more sophisticated and more technologically rooted in the information age.

Basic Rating Principles

In providing service throughout the Province, SaskTel has applied two basic rating principles when setting rates in order to attain universal access and a uniform level of service to all subscribers.

A. Value of Service Concept

The application of this principle reflects the recognition that the telecommunications industry provides services that are worth more to some classes of users. For example, business subscribers pay a higher basic telephone charge, since telephone service has a higher value to them.

B. Rate Averaging

The fundamental advantage of this principle is that it allows rates to be developed, irrespective of disparities in cost due to type of terrain, location, population density, high or low traffic routes. The costs are averaged and as a result, the same service is offered throughout the province at the same rate. Generally speaking, communities with 50 subscribers pay the same basic rate as do subscribers who live in communities with a subscriber base of 2500 or less.

These rating principles along with significant contributions from long distance service have allowed local service rates to remain low, thereby achieving universal access and a higher quality of service throughout the Province.

Industry Accomplishments in Saskatchewan

The goals and pricing principles employed by SaskTel have resulted in the following achievements:

- 1) virtually 100% universal access, with the second lowest monthly rates in Canada;
- 2) individual line service for all communities in the Province with 50 or more subscribers;
- 3) an average 2.7 subscribers for rural multi-party lines; and
- 4) the world's longest fibre optic broadband network providing telephone and CATV services to 52 communities in the Province.

Implications of Interexchange Competition for Long Distance Service

A. Revenue Implications

SaskTel's toll revenues are derived from intra-provincial long distance calling and from SaskTel's share of the inter-provincial long distance revenue. Of the projected toll revenues for 1984,

- 28% will be obtained from the corporation's share of Telecom Canada's Revenue Sharing Plan;
- 19% from long distance business shared with adjacent member companies; and the remaining
- 53% will be derived from intra-provincial calls.

Clearly, any competitive inroads into long distance service, will result in a loss of toll revenue for SaskTel. This revenue shortfall will have to be obtained by increasing rates charged for basic and optional exchange services.

B. Differential in Service Quality

In the long term, competition will drive prices towards service costs. The effect of this move, in the case of toll services, will be to eliminate the contribution that this service presently provides to telephone companies. Loss of this revenue will, in SaskTel's case, result in insufficient cash flows to permit expansion of new and improved service into the rural and uneconomical areas of the province. Indeed this loss will make it difficult for the corporation to maintain the current level of service to these areas.

Our public utility will become a provider of "service of last resort" while the competitors are "cream-skimming" profitable routes. SaskTel is not in a position to drop "uneconomic routes" as has been the case with the operation of railway services in Saskatchewan.

C. Increases in Local Telephone Rates

Most of these so-called competitive initiatives have created great concern over the anticipated sharp increase in local service and other rates. Pricing basic exchange service close to costs will impact most severely on: rural subscribers; senior citizens, who comprise approximately 12% of the province's population; and low income subscribers such as welfare recipients. We believe subscriber drop-off will result.

The introduction of government subsidies or dramatic increases in the cost of basic service to all subscribers, in order to maintain the current level of service, does not appear to be a viable alternative for any level of government to consider.

The question of revenue losses raises yet another spectre for the people of Saskatchewan. The largest single user of telecommunications in our province is government -- all three levels, municipal, federal and provincial. Their basic telephone bills will rise also with the introduction of competition. Unlike similar customers in the Bell and B.C. Tel territory, in our province these customers will not benefit from any changes in long distance toll charges. Consequently, this will all fall back on the taxpayers. They will be paying more for their own home phone, and paying more through taxes to support increased government telephone bills.

Summary

In summing up, the Government of Saskatchewan would like to make several observations. Much of the argument in this area, both here and in the U.S., has been driven by economists. While not discounting the importance of the economic factors, it has to be recognized that telephone service to the public of Saskatchewan, and Canadians in general, is much more than an economic phenomenon -- it also has a social and cultural dimension. It is largely for this reason that the Saskatchewan Government is greatly concerned about the current threat to universal service. We look to our immediate neighboring state of North Dakota and witness telephone costs in cities such as Grand Forks rising 48 percent this past year and wonder -- who is being served by competition in telecommunications.

If the CNCP application were granted it would mean a dramatic restructuring of telecommunications in Canada where, through cross-subsidizing and rate-averaging, the vast majority of Canadians have had universal telecommunications available to them. It has been on this basis that Saskatchewan citizens have invested heavily in their telephone company. Must the citizens of Saskatchewan now witness the transformation of their telephone company?

If approved, the CNCP application would only serve a select few in certain regions of this country. It would prove to be to the detriment of others, and would have the effect of widening the gulf of regional disparity in our country.

We believe that it would serve this Commission well to re-examine its deliberations of Telecom Decision 79-11, when it ruled that competition in voice communications would not be in the public interest because of the potential harm it could do to the erosion of revenues needed by Bell and B.C. Tel to support local exchange facilities and maintain rate averaging.

We therefore urge this Commission to deny the application of CNCP in the interests of supporting the equitable telephone service that is now available to all Canadians.